



Diocesan Policies for Justice in Banking and Investing Guidelines

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1. Scope

- 1.1. The following banking and investment guidelines are grounded in the spirit of love and the principle of stewardship for the financial assets of the Diocese and its Parishes. These guidelines are meant to promote and encourage right action as we strive to live into our call to seek justice and peace and respect the dignity of every human being. You are invited into this holy financial conversation. This document is intended to be a guide and resource as we aspire to mirror Jesus in all of who we are and what we do.

2. Introduction

- 2.1. These banking and investment guidelines are meant to assist the financial management of both the Diocese and its Parishes. They apply to both the operating and investment funds held by the Diocese and Parishes. The goal is for the Diocese and its Parishes to do business in a way that upholds the values, beliefs, and mission of all segments of The Episcopal Church with respect to economic and social justice issues.
- 2.2. Banking and investment partners within the Diocese need to be responsive to and demonstrate support of the communities served, including low income and minority communities. These banking and investment partners should not engage in predatory lending or racially discriminatory lending practices regarding housing and other consumer needs or other illegal or inappropriate practices as defined by state and/or federal law or regulation in any of their products, services, and customer relationships.
- 2.3. These guidelines cover operating accounts, restricted or reserve funds, and endowment funds held by the Diocese and Parishes in the Diocese.
 - 2.3.1. **Operating accounts** are depository accounts held in FDIC-insured financial institutions or NCUA-insured credit unions used for managing annual budgets, income, and payments. Generally, these are the checking and savings accounts of the Diocese and Parishes.
 - 2.3.2. **Restricted/Reserve funds**, including the Diocese's Opportunity Fund are held in anticipation of either capital spending needs or other extraordinary (off-budget) spending that is predictable and for which Council, Convention, or Vestries (in the case of Parishes) have set aside funds in advance. Restricted/reserve funds are spent only on those items intended and are not available to contribute to the annual spending for the regular operating budget. As a restricted/reserve fund's time horizon is relatively short (typically three to five years), the investment objective of a restricted/reserve fund should preserve the purchasing power of the funds allocated to it; principal appreciation is secondary.
 - 2.3.3. **Endowment funds** provide revenue each year to help fund Diocesan and Parish operations and projects. The goal of these investment guidelines and the associated spending draw policy is to provide a consistent and sustainable revenue stream to the annual budget process. Thus, the long-term investment performance of an endowment fund must provide growth that matches or exceeds the annual spending draw plus endowment expenses and inflation.

3. Economic and Social Justice Standards

- 3.1. The Diocese of East Tennessee and its Parishes shall not deposit or invest funds or otherwise do business with financial institutions that engage in predatory or racially discriminatory lending practices about housing and other consumer needs.
 - 3.1.1. If such practices are found to be taking place, the Diocese and Parishes should withdraw such funds as soon as reasonably practicable and place such funds with another banking institution.
- 3.2. Sustainable and Responsible Investing, with its emphasis on environmental, social, and governance (ESG) factors, is an on-going concern and consideration for the Diocese and Parishes. Investments should reflect the mission and ESG priorities of the Diocese, its Parishes, and their members.
 - 3.2.1. The Diocese will favor investment actions and activities that support long term economic development consistent with socially responsible outcomes. We aspire towards better than average practices and standards as measured globally.
 - 3.2.2. The Episcopal Endowment Corporation (EEC) recognizes that as a part of the Episcopal Church, their investment managers should consider and invest in socially responsible funds to the extent such funds are available. In addition to not doing business with financial institutions that engage in predatory or racially discriminatory lending practices with respect to housing and other consumer needs, the Diocese, the EEC, and Parishes should include five additional areas for consideration:
 - 3.2.2.1. **Health and safety:** We discourage production and sale of products and services with a significant adverse impact on the health and safety of individuals or communities.
 - 3.2.2.2. **Environmental impact:** We promote above-average practices in the areas of reduced carbon emission, conservation, pollution control, and waste reduction.
 - 3.2.2.3. **Workplace policies:** We expect entities to avoid unacceptable labor practices and violations of health and safety regulations in their own facilities and organizations and in their supply chains.
 - 3.2.2.4. **Community engagement:** We expect entities to uphold human rights and nurture positive relationships in the communities where they are located.
 - 3.2.2.5. **Corporate governance:** We expect entities to demonstrate ethical and accountable practices with their stakeholders (e.g., employees, communities, shareholders).

4. Investment Objectives and Spending Guidelines

- 4.1. Operating accounts are to be deposited with financial institutions that are safe, sound, and insured by the Federal Government (FDIC or NCUA). Preservation of capital is the key objective.
 - 4.1.1. The Diocese and Parishes shall not deposit operating or restricted/reserve funds or otherwise do business with financial institutions that engage in predatory or racially discriminatory lending practices with respect to housing and other customer services.
 - 4.1.2. The Diocese and Parishes shall only have depository accounts with financial institutions that have Outstanding or Satisfactory Community Reinvestment Act (CRA) ratings as published by the Federal Financial Institutions Examination Council, or the equivalent.¹
- 4.2. Restricted/reserve funds are set aside for known spending needs in the immediate years ahead (within 3 to 5 years). When the Diocese and Parishes place funds in a restricted/reserve fund, they do so with little tolerance for capital loss and to keep pace with inflation. In addition, the liquidity requirements of a restricted/reserve fund are high. Restricted/reserve fund resources need to be available on relatively short notice (30 days at most). Investments in illiquid vehicles are not appropriate.
- 4.3. The Opportunity Fund provides grants for social programs and loans for church expansion at both the Diocesan and Parish level. Investment of these funds is governed by its charter; these guidelines with respect to justice in banking and fair lending also apply.²
- 4.4. Endowment funds are to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions in support of the Diocese and Parishes. Fund investments should achieve 3-year-moving-average rates of return consistent with Diocesan spending policy plus the inflation rate as measured by the Consumer Price Index (CPI) over 3-year-moving-average cycle.
 - 4.4.1. The annual distribution from the endowment fund to the Diocese and Parishes established by the EEC is currently 4%. Some may elect to not take a distribution or request a quarterly or annual payout. Some may request a higher payout. Long-term rates of return on assets needs to be sufficient to ensure a rate of return to meet or exceed the inflation rate plus 4%.
 - 4.4.2. Each year's Convention adopts the Operating Budget, which includes an estimate of a 4% EEC payout based on a 3-year moving average of fund balances. Increases above that can only be considered in response to special circumstances.

¹ Public CRA ratings are available at <https://www.ffiec.gov/craratings/>

² <https://dioet.org/wp-content/uploads/2021/03/Opportunity-Fund-Policy-and-Procedures.pdf>

5. Monitoring Endowment Portfolio Investments and Performance

- 5.1. **Benchmarks.** The EEC establishes benchmarks for each of its portfolios. The portfolio manager with approval of the Chief Investment Officer develops the index with approval of EEC Board of Directors. Each portfolio manager is evaluated quarterly with long-term emphasis over a 3–5-year period regarding fund performance compared to the index and may be removed if fund performance over a period of time is found to be unsatisfactory by the Chief Investment Officer and the Board. Fund objectives will be reviewed annually and adjusted, if necessary, after consultation with Board, Chief Investment Officer, and the portfolio fund manager.
- 5.2. **Risk management.** Relative risk is minimized through diversification of assets so that volatility of the portfolio is in line with general market conditions.
 - 5.2.1. For Parishes, if investment fund performance is not in sync with their understanding of market performance, the prudent thing to do is to request information from their fund provider and perhaps consider more diversification.
- 5.3. **Asset allocation for endowment funds.** The EEC sets the asset allocation of the funds based on long-term performance and risks of various market classes and risks/rewards of market behavior. This is reviewed semi-annually and rebalancing may be recommended. Such asset allocation is meant to ensure enough liquidity to provide designated payouts to Diocese and Parishes.
 - 5.3.1. For Parishes investing outside of the EEC, consider the following allocation ranges:
 - 5.3.1.1. Stock and equivalents: 50% to 70% of portfolio value
 - 5.3.1.2. Fixed income: 30% to 50% of portfolio value
 - 5.3.1.3. Cash investments will, under normal circumstances, only be considered as temporary portfolio holdings, and will be used to fund liquidity needs or to facilitate a planned program of dollar cost averaging into investments in either or both equity and fixed income asset classes.
- 5.4. **Portfolio liquidity.** The portfolios should have sufficient liquidity to meet the needs of the Diocese and Parishes. Public securities, such as mutual funds, stocks, and bonds have the advantage of trading on secondary markets, allowing investors to buy and sell with relatively low transaction costs and settlement periods for reasonably predictable prices. Direct investments, such as loans and equity investments in private enterprises, usually cannot be sold easily or quickly at fair value.
 - 5.4.1. There will be situations where less liquid investments may be appropriate for endowment funds as determined by the EEC or other investment company.
 - 5.4.2. For Parishes with investments outside of the EEC, a direct investment in an enterprise deemed to have special attraction from an Environmental, Social, and Governance (ESG) perspective might be an example of a less-liquid investment. Any direct investment should be subject to an overall portfolio cap (e.g., 10% of overall portfolio and a per-investment limit of 2.5%).
 - 5.4.2.1. **Rebalancing.** Parishes should review their portfolio quarterly to determine the deviation from target weightings and rebalance the portfolio accordingly.
 - 5.4.2.2. **Diversification.** Diversification across and within asset classes is the primary means of avoiding undue risk of large losses over long time periods. Parishes should take reasonable precautions consistent with generally accepted investment standards for fiduciaries of charitable institutional accounts to avoid excessive investment concentrations.

- 5.5. **Reporting and accountability.** EEC will provide quarterly and annual reports on the performance of investments, market conditions, etc. to the Diocesan Administrator and Treasurer. These will be reviewed and communicated to the Finance and Budget Committee and to the Bishop & Council on a quarterly and annual basis. The Treasurer and/or the Diocesan Administrator will discuss any questions that arise with the EEC and inform Bishop & Council and the Finance Committee of the response.
- 5.5.1. Parishes with investments outside of the EEC need to establish reporting and accountability standards consistent with prudent stewardship. At a minimum, investment advisors should provide quarterly reports that include information on performance; portfolio characteristics, summarized by key investment factors; portfolio holdings in total; and valuation to Parish Finance Committees and Vestries.
- 5.6. **Other Guidelines.** Unless authorized by the Diocesan Council or Convention, the Finance Committee is prohibited from:
- 5.6.1. Purchasing securities on margin or executing short sales.
- 5.6.2. Making direct investments that are not fully collateralized.
- 5.6.3. Purchasing or selling securities for speculation or leverage.

6. Role of the Diocesan Finance Committee

- 6.1. The EEC and the Board of Directors, along with the portfolio managers, and the Chief Investment Officer are fiduciarily responsible for the investment results. The EEC Board is responsible for the continued employment of the portfolio fund managers and the Chief Investment Officer, based on their performance. Currently there are three board members from the Diocese of East Tennessee. The board along with the chief Investment Officer and portfolio managers are responsible for fund selection and ultimately responsible for fund performance.
- 6.2. The Treasurer is responsible for communicating the EEC's quarterly and annual reports in a timely manner to the Finance Committee and Bishop & Council and referring questions from each to the EEC if any clarification is needed.
- 6.3. **Conflict of interest.** Each Investment Manager, Investment Consultant, member of the Finance Committee, and Finance and Operations staff member is required to abide by the Conflict of Interest Policy of the Diocese. In the case of a conflict of interest, the existence and resolution of the conflict shall be documented in the Diocesan records, including in the minutes of any meeting at which the conflict was discussed or voted upon.
- 6.4. **Confidentiality.** Members of the Finance Committee, Diocesan staff, Investment Managers, Investment Consultants, and members of Bishop & Council are expected to maintain the confidentiality of information obtained by virtue of their positions. Information obtained solely by virtue of one's position on the Finance Committee, as a member of the staff, as an Investment Manager or Consultant, or as a member of Bishop & Council is not to be used for personal financial purposes.